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## United States Senate

COMMITTEE ON COMMERCE, SCIENCE,  
AND TRANSPORTATION

WASHINGTON, DC 20510-6125

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February 28, 1997

Federal Communications Commission  
Office of Secretary

Honorable Reed E. Hundt  
Chairman  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

EX PARTE OR LATE FILED

Dear Chairman Hundt:

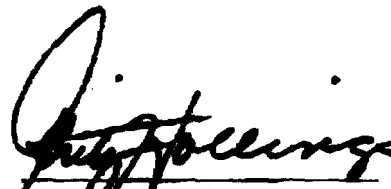
On behalf of the Committee, we wish to thank you for agreeing to answer specific questions regarding implementation of the universal service fund provisions of the Telecommunications Act of 1996 in advance of the Committee hearing on March 12. These questions are enclosed.

The number and breadth of these questions exemplifies the importance the Members of this Committee attach to the Commission's initiatives in implementing this critically-important section of the statute, which will directly impact the availability, quality and price of telecommunications services. At the same time, there are few areas, even in the highly complex area of telecommunications regulation, that are more difficult than this one. Your undertaking to respond to these questions will put the Committee in a better position to fully appreciate the ramifications of your proposals in this area.

We would appreciate your response to these questions no later than the close of business on Wednesday, March 5.

Sincerely,

  
John McCain

  
Ernest F. Hollings

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PRE-HEARING QUESTIONS FROM REPUBLICAN MEMBERS  
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION  
MARCH 12TH HEARING ON UNIVERSAL SERVICE

- 1) A certain amount of local telephone exchange costs are currently allocated to the interstate market and recovered by means of access charges. If these costs are not fully recovered through access charges how will these costs be recovered? What proportion of them would be recovered in the universal service fund?
2. Since explicit recovery of subsidies is a feature of the Telecom Act, would you support a surcharge for recovery of Universal Service?
3. Do you believe that section 254(d) authorizes the Commission to base a contribution to universal service using total revenues? If so, why? If not, why not?
4. Would the inclusion of inside wiring within the services required to be provided to schools and libraries at a discount, render this approach susceptible to legal challenges on the basis that it is a tax rather than a regulatory fee?
5. The discounts under Section 254(h) are scheduled to commence in September 1997. Will the Commission have established an operational universal service fund by that time? If not, how will these subsidies be provided for?
6. Should the contribution of CMRS providers be reduced to reflect the fact that, as "telecommunications carriers" they must pay into the fund, but because they are unlikely to be deemed "eligible telecommunications carriers," they are unlikely to receive monies from the fund?
7. Would you limit carriers' ability to pass along to end users the costs of contributing to universal service, regardless of whether these increased costs are, or are not, permitted to be specifically listed on the end user's bill?
8. To the extent a "market-based" approach to access charge reduction is followed, it will only lower rates to the extent new entrants win local customers using either their own facilities or unbundled network elements. Are you satisfied that no further changes need to be made to other sections of the FCC's rules to assure speedier inauguration of competing local telephone service?
9. If you proposed a prescriptive approach to access charge reform, would you also propose to require long distance carriers to pass access charge savings through to customers?

10. Has the FCC attempted to quantify the amount that implementation of universal service will add to the average telephone ratepayer's bill.

11. Certain states have already provided for funds to wire their schools through state taxation. To the extent this is the case, would it be correct to regard the proposed \$2.25 billion yearly cap as too high?

12. Please give us your views on dividing the section 254(h) funds into two components, one for telecommunications services, and a separate cap for internal connections and Internet access.

13. Has the FCC attempted to estimate the total industry cost of funding internal connections under section 254(h)?

14. We read recently of a \$14 million grant by the Department of Education to wire schools in three states. Please identify and give the approximate amount of all other federal funds and/or programs or voluntary industry-sponsored efforts that are available for the same purpose. Have the resources available from such other sources been considered in calculating the \$2.25 billion yearly fund?

15. Would you consider toll blocking an effective alternative to prohibiting local phone companies from disconnecting for nonpayment of toll charges?

16. Given the cap on school library funding, what changes are you contemplating to the trigger? What merit would you find with requiring school libraries to file during a filing window earlier in the year?

17. You stated on February 25th that you proposed to go against the recommended decision and adopt an interstate-only fund. What other recommendations of the Joint Board would you propose to depart from?

18. If the benchmark proxy models are not fully developed by May 8th, what other options would you consider?

19. What kinds of services will be subsidized by the telemedicine fund? Please describe the data you have on the types of services needed in various types of communities and the costs of providing them.

20. Is increasing telephone subscribership one of your aims in implementing the low-income subsidy program?

PRE-HEARING QUESTIONS FROM DEMOCRATIC MEMBERS  
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION  
MARCH 12TH HEARING ON UNIVERSAL SERVICE

- 1) The Commission has delayed recommendations on the rural health care providers section of the Snowe-Rockefeller amendment pending further research into costs and services. Would you please inform the Committee of the status of the rural health care providers piece of universal service and when we can expect recommendations?
- 2) Would you please provide the Committee with a cost estimate for assuring rural health care providers Internet access at local toll-call rates and telecommunications services at bandwidth up to 1/4 T-1 at rates comparable to those available in urban areas?
- 3) According to the filing submitted by the U.S. Department of Justice [CC Docket No.96-98] before the Commission, the economic cost-based model proposed by the Commission in the interconnection proceeding could result in rate increases for about 30% of the general population. The Justice Department predicts that in "sparsely populated areas," aggregate consumer costs for basic local phone service will increase \$6.9 billion annually. Could you comment on the Justice Department's predictions and whether or not the Commission agrees that rural areas are going to see the kind of increases described above?
- 4) Consumers in rural, high-cost areas ought not be adversely affected by the Commission's local competition rules and universal service changes presently under consideration. That is why the Act provides for "specific, predictable and sufficient" universal service support mechanisms as to avoid dramatic increases in rates paid by rural consumers. How does the Commission interpret what Congress intended by "specific, predictable and sufficient" support mechanisms?
- 5) Consumers in densely populated areas are likely to benefit from lower prices and receive more opportunities to access advanced telecommunications services through competition. However, the Act specifically recognizes the unique circumstances of different markets, such as rural, high-cost areas where competition is less likely to arrive or at least will not arrive for some time after it has arrived in urban areas. Universal service support is necessary to deliver affordable services that are comparable to services available in competitive markets. What specific universal service support mechanisms is the Commission considering that will ensure that while competition is gradually moving out from dense urban markets to thin rural markets all consumers have reasonably comparable services at reasonably comparable rates?
- 6) Congress did not vote for the Telecommunications Act to

increase phone rates and degrade service and the Act was intended to encourage and facilitate local exchange competition and infrastructure investment; not discourage it. However, since the passage of the Act and since the Commission's publication of final interconnection proceeding and the Joint Board universal service recommendations which assume a forward looking cost model, some local phone companies have been seeking state legislation to increase local rates. Is the Commission aware of this deregulation activity at the state level and what is the Commission's response to those local companies that claim they need to increase local rates to recoup anticipated revenue losses they believe at stimulated by the Commission's implementation of the Act?

7) The Congress rejected a one-size-fits-all approach for all market circumstances and the new law was designed to ensure that the introduction of competition and the maintenance of universal service would be appropriate to unique market conditions. The law provides that the Commission establish different "specific, predictable, and sufficient" mechanisms as appropriate to ensure universal service support where needed. What kinds of support mechanisms is the Commission considering to reflect different market circumstances?

8) Section 254(b) of the Act specifically states that universal service must ensure that services are available at "just, reasonable, and affordable rates" and that "specific, predictable, and sufficient Federal and State mechanisms" be established to preserve and advance universal service. Is the Commission considering the establishment of a single fund to fulfil the Act's requirement? Is the Commission considering a capped fund?

9) The Joint Board recommended to establish a capped fund of \$2.25 billion for Section 254(h), the provisions requiring discounts for schools and libraries. What is the Commission's view of this recommendation? Does the Commission believe that a capped fund fulfill's the law's requirement "to ensure" that all qualifying schools and libraries have "affordable access" to telecommunications services at discounted rates? How would such a proposal be implemented? Would discounts, under a capped fund, be available to all *bone fide* requests, or only those that are made early enough before the fund is expended? Finally, how would the Commission distribute this fund and ensure that every *bone fide* request would be fulfilled as required by the law?

10) With respect to telecommunications carrier contributions to provide discounts under Section 254(h), how does the Commission intend to "credit" those contributions under universal service? Also, does the Commission have any plans to utilize competition among carriers as a means to offer discounts to schools and libraries that may not necessarily need monetary distributions from a "fund?"

11) The universal service provisions in the Telecommunications Act of 1996 were developed, in part, in reaction to the Commission's universal service proceeding under the Common Carrier Docket 80-286. As you know, this proceeding was pending while the Telecommunications Act was being developed. One element of that proceeding that greatly concerned Commerce Committee Senators was the proposal to cap the universal service fund and thus, the legislation was designed to utilize other means to "size" universal service support. Has the enactment of the Telecommunications Act changed the Commission's position on how to control universal service support mechanisms? Or, does the Commission believe that capping universal service is still necessary? If so, is this consistent with the Act in your judgement?

12) Under existing subsidy mechanisms for telephone service, the Universal Service Fund, for example, helps small telephone companies in rural and high cost areas keep rates affordable. Other support mechanisms, such as access charges, provide for universal service as well. It is imperative that the Commission take into account all existing forms of universal service support when contemplating the size and scope of new universal service mechanisms and their effect on comparability and affordability. If the Commission reforms access charges, how will the Commission ensure that adequate support mechanisms are put in place in order to avoid imposing a "shock" on local phone company revenues, especially the smaller, rural phone companies that rely heavily upon access charges to current universal service support?

13) Universal Service support mechanisms should not exclude non-residential consumers in rural, high-cost areas or limit rural residential consumers to second class service. The Joint Board's recommendations to eliminate universal service support for business and other non-residential consumers in rural, high-cost areas appears to misinterpret the Act as to restrict universal service support to single-line residential consumers alone. The Joint Board's recommendations could have a profound effect on economic development in rural areas and deny rural areas the benefits of the opportunities that can be associated with access to quality telecommunications services. What is the Commission's view on this recommendation? Does the Commission believe it is justifiable to limit support to only one primary line when no such distinction is made under the present system? Does the Commission believe that this recommendation is consistent with Section 254(b)(3) which provides for services that "are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas?"

14) As you know, many local phone companies have expressed concerns about forward looking costs in interconnection and proxy models under the Joint Board's recommendation. They believe that such cost models do not provide sufficient flexibility or predictability. If the Commission does not provide an adequate

cost formula for rural and high cost areas, it could have profound effects on rural phone rates. A disregard for actual investments that have been made in networks to provide universal service under a regulatory scheme could provide upward pressure on local phone rates unless universal service reforms and access charge reforms are structured appropriately. Please explain the Commission's view of these models?

14) How do these hypothetical models account for the wide variance of circumstances of providing services in different geographic areas? For example, in rural Alaska, many of the residents reside in villages in relative close proximity whereas in rural Montana, individual customers may have several miles between each other. These two situations will have profound effects on the costs of providing telecommunications services to those consumers. How does the cost models employed by the Commission and in the Joint Board recommendation take into account these kinds of factors?

15) The Joint Board attempts to provide for rural circumstances by freezing the historical costs of rural phone companies at 1995 levels for three years then requiring rural phone companies to be subject to the forward looking cost model. What data did the Joint Board use in establishing this recommendation? Does the Commission believe that this recommendation is sufficient to account for all the needs of rural carriers? Including those who are in the process of upgrading their networks?

16) Recently, you announced that the federal universal "fund" would not include intrastate revenue sources and instead rely solely on interstate revenue streams. The result, as you know would be that there would no longer be any cross-state subsidy support -- except for interstate revenues. Has the FCC or the Joint Board done any analysis on what impact this would have in relation to the existing universal service system? If the FCC were to limit federal support mechanisms to only interstate revenues, what impact would this have on each state; especially on states that are predominantly rural and have many high-cost areas?

17) When a long-distance carrier buys an "unbundled network element" to provide local telephone service, what is the responsibility of that carrier to maintain service? If a local customer experiences a loss of phone service, who does the customer call, the reseller or the owner/operator of the plant?

18) If there is a natural disaster, such as a hurricane or tornado, which company is responsible to repair the damage and get the telephone system up and running? Will local resellers be required to have their own repair crews? Or will it be the local exchange carrier's responsibility?

19) I understand that right now, most major local phone

companies are self-insured. That is, when a disaster strikes, they just fix it, and eventually recover the cost over time from their customers. How does the Commission contemplate this self-insurance situation under the pricing scheme planned for resellers?

20) Assume that as a result of a natural disaster, a local phone company decides that it is just too costly to repair all the lines that were knocked down and thus, decides to abandon a given area. What, if any, mechanism in the Commission's rules prevents this from happening?

21) In the 1986 Cable Act, Congress determined that other companies could come in and "over-build" and compete with the local cable company. However, if a company wanted to compete, it could not "redline" an area but had to provide service to all. Is there any similar requirement in the Commission's rules which would require a competitor to a local phone company to offer service throughout the area?

22) One of the problems that consumers have had with long-distance businesses has been "slamming." Despite the efforts by the Commission and State regulators, the FCC's own score card, released earlier this year, continues to show an increase in "slamming" complaints. Do the rules proposed by the Commission contemplate a consideration of "slamming" complaints at the time a long-distance company files an application to enter the local telephone market?

23) What is the requirement for companies that wish to compete in the local telephone business to provide service when requested by any customer. Will these companies be permitted to refuse to sign a customer up for any reason, for example, because the customer does not make enough long-distance calls?

24) Are there going to be special rules for the publishing of telephone books? Will each local telephone company list only their own numbers and customers? If a local telephone company is required to reprint all of its competitor's customers phone numbers, who is responsible for the printing costs? Will all carriers that provide local telephone service be required to reprint the telephone numbers of their competitor's customers?

25) When the Commission "deregulated" telephone equipment, we seemed to have gotten into a situation where no one seemed to be in charge of getting things fixed. If you called your local phone company, they would say that the problem was with your equipment. And if you called the equipment company, they would tell you there is something wrong with your phone line. Meanwhile, your telephone did not work. How does the Commission intend to deal with this situation with competing local telephone companies? To whom will a customer be able to turn for help? I believe that this is a critical issue for 90 percent of American consumers -- competition and low cost are meaningless and no

bargain if your phone does not work and you can not get things fixed.

26) There is a real concern about whether rural America is going to benefit from competition. Over the past five years, several major phone companies have sold their rural exchanges. US West, for example, has sold a significant number of their rural exchanges and in some States, seem to be pulling out completely, e.g. North Dakota. This seems to mean that rural customers will have to rely on small, independent phone companies to meet their needs. The concern is whether these small companies will have the technical expertise and resources needed to run a state-of-the-art, high quality network in all rural areas. According to the Census Bureau, approximately 25 percent of Americans live outside any metropolitan area (the Census Bureau considers any town of 2,500 or more to be "urban"). That means that 64 million people are at risk that they will not experience the same quality of telephone service.

27) How does the Commission intend to ensure that rural America is going to be served to the same degree and quality as urban and suburban America?

28) Will the Commission's rules provide authority for the FCC to order one or more telecommunications companies to go into a market that is not being served?

29) Is it not unlawful under Section 254(g) and the Commission's rate integration rules for an interexchange carrier to offer postalized rates for service on the Mainland and distance sensitive rates for services between points on the Mainland and in the State of Hawaii?

30) It is our understanding that no interexchange services or interexchange carriers are exempt from the requirement of rate integration. Is this correct?

31) The legislative history of Section 254(g) indicates that forbearance from Section 254(g)'s mandates is permissible only with respect to the geographic averaging component, and then only in "limited" cases. Is this the principle being followed by the Commission when it rules on petitions for forbearance from Section 254(g)'s requirements?



~~FCC MAIL SECTION~~  
U.S. SENATE COMMITTEE ON

# Commerce, Science, and Transportation

JOHN McCain, Chairman

## FAX

TO:

William Caton / Care of Watch Officer

OFFICE:

FCC - Office of Managing Director

FAX NO:

418-~~2222~~ 2813

DATE:

2-28-97

TIME:

PAGE 1 OF:

10

FROM:

Kevin Krotky for Pete Belin (202) 224-3011

SUBJECT:

3/12/97 - Universal Service Hearing  
Republican + Democrat Questions.